

**IOWA STORED ENERGY PLANT AGENCY  
TRAER, IOWA**

**FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITORS' REPORT  
FOR THE YEARS ENDED  
FEBRUARY 28, 2009 AND FEBRUARY 29, 2008**

# IOWA STORED ENERGY PLANT AGENCY

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## INDEPENDENT AUDITORS' REPORT

Iowa Stored Energy Plant Agency  
Traer, Iowa

We have audited the accompanying statements of net assets of Iowa Stored Energy Plant Agency and the related statements of revenues, expenses and changes in net assets and cash flows as of and for the years ended February 28, 2009 and February 29, 2008. These financial statements are the responsibility of Iowa Stored Energy Plant Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Iowa Stored Energy Plant Agency as of February 28, 2009 and February 29, 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2009, on our consideration of Iowa Stored Energy Plant Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Iowa Stored Energy Plant Agency has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

O'DONNELL, FICENEC, WILLS & FERDIG, LLP

By   
Certified Public Accountant

November 17, 2009

## IOWA STORED ENERGY PLANT AGENCY

### OFFICIALS

#### *Administrative Board -*

Dennis Fannin	President	Osage Municipal Utilities
John Bilsten	Vice-President	Algona Municipal Utilities
Scott Tonderum	Secretary	Graettinger Municipal Light Plant
Pat Parker	Treasurer	City of Panora
Neil Ruddy	Trustee	Carlisle Municipal Utilities

#### *Others -*

Kent Holst	ISEPA Development Director	Iowa Stored Energy Plant Agency
Bob Haug	Ex Officio Board member	Iowa Association of Municipal Utilities

**IOWA STORED ENERGY PLANT AGENCY**

**STATEMENTS OF NET ASSETS  
FEBRUARY 28, 2009 AND FEBRUARY 29, 2008**

<b>ASSETS</b>	<b>2009</b>	<b>2008</b>
Cash and Invested Funds -		
Operating Account	\$ 25,314	\$ 1,927
IPAIT Accounts	<u>2,031</u>	<u>47,628</u>
Total Cash and Invested Funds	27,345	49,555
Receivables - Member Contribution	10,000	5,000
	<u>          </u>	<u>          </u>
Total Assets	<u>\$ 37,345</u>	<u>\$ 54,555</u>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts Payable - Trade	\$ 91,387	\$ 63,638
Due to Iowa Association of Municipal Utilities	<u>33,100</u>	<u>33,100</u>
Total Liabilities	124,487	96,738
Net Assets -		
Unrestricted (Deficit)	(87,142)	(42,183)
	<u>          </u>	<u>          </u>
Total Liabilities and Net Assets	<u>\$ 37,345</u>	<u>\$ 54,555</u>

See Independent Auditors' Report and Notes to Financial Statements.

# IOWA STORED ENERGY PLANT AGENCY

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED FEBRUARY 28, 2009 AND FEBRUARY 29, 2008

	2009	2008
<b>OPERATING REVENUE:</b>		
Contract Revenue	\$ 103,548	\$ 377,535
Consulting Income	541	-
Member Contributions	<u>35,000</u>	<u>80,000</u>
Total Operating Revenue	139,089	457,535
<b>OPERATING EXPENSES:</b>		
Salary Expense	60,000	60,000
Accounting Expense	13,300	19,017
Advertising Expense	149	135
Consulting Expense	66,000	348,833
Insurance Expense	3,184	3,170
Legal Expense	24,945	80,220
Meeting Expense	8,588	22,275
Office Expense	3,243	4,710
Payroll Taxes	<u>4,874</u>	<u>5,101</u>
Total Operating Expenses	<u>184,283</u>	<u>543,461</u>
Operating Income (Loss)	(45,194)	(85,926)
<b>NON-OPERATING REVENUE:</b>		
Interest Income	<u>235</u>	<u>6,221</u>
Change in Net Assets	(44,959)	(79,705)
Net Assets (Deficit), Beginning of Year	(42,183)	37,522
Net Assets (Deficit), End of Year	<u>\$ (87,142)</u>	<u>\$ (42,183)</u>

See Independent Auditors' Report and Notes to Financial Statements.

# IOWA STORED ENERGY PLANT AGENCY

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED FEBRUARY 28, 2009 AND FEBRUARY 29, 2008

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash Receipts from Operations	\$ 134,089	\$ 545,275
Cash Paid to Employees and Related Costs	(64,874)	(65,101)
Cash Paid to Suppliers for Goods and Services	<u>(91,660)</u>	<u>(663,570)</u>
Net Cash from Operating Activities	(22,445)	(183,396)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash Received on Investment Earnings	<u>235</u>	<u>6,221</u>
Increase (Decrease) in Cash and Invested Funds	(22,210)	(177,175)
Cash and Invested Funds, Beginning of Year	49,555	226,730
Cash and Invested Funds, End of Year	<u>\$ 27,345</u>	<u>\$ 49,555</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</b>		
Operating Loss	\$ (45,194)	\$ (85,926)
Changes in Operating Assets and Liabilities -		
Accounts Receivable	(5,000)	87,740
Accounts Payable - Trade Increase (Decrease)	27,749	(183,391)
Payroll Tax Liabilities Increase (Decrease)	-	(1,819)
Net Cash from Operating Activities	<u>\$ (22,445)</u>	<u>\$ (183,396)</u>

See Independent Auditors' Report and Notes to Financial Statements.

## IOWA STORED ENERGY PLANT AGENCY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. **Organization -**

Iowa Stored Energy Plant Agency (ISEPA) was organized on August 2, 2005, pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of ISEPA is to provide joint and coordinated action regarding the acquisition, financing and administration of its member interest in an electric plant or plants using natural gas or other gases, wind, biomass, air or other similar or related energy sources as a source for the generation of electric power. The Organization has retained legal and consulting experts to assist in identifying project financing strategies and structures to be used in meeting the goals associated with its objectives.

ISEPA members are either public or private agencies who are bound by the terms of the 28E agreement filed with the Iowa Secretary of State.

Management has designated four departments which each share in ISEPA's entire costs. Once operations begin, the four departments may each operate independently, incurring expenses and generating revenues from the other departments, as well as from other entities. The departments are as follows:

1. Compressed Air Energy Storage (CAES) - This department will be the electric generating facility which will consist of a generating plant and the related operations.
2. Transmission (TRNS) - This department will own electrical transmission lines for both incoming and outgoing electricity.
3. Wind Turbines (WIND) - This department will consist of wind turbines which will be erected to produce electricity.
4. Underground (UNDG) - This department will consist of several billion cubic feet of storage capacity for compressed air. This storage will consist of leases for underground storage rights with several property owners, numerous wells costing approximately \$500,000 each, and extensive underground piping to manifold the wells together.

B. **Reporting Entity -**

Generally accepted governmental accounting principles require ISEPA (the reporting entity) to consider if it has oversight responsibility or control over any other legal entity. Control or dependence is determined by appointing a voting majority of the governing board of another organization and, (a) have the ability to impose its will, or (b) is legally obligated or has otherwise assumed the financial burdens of another organization. ISEPA has no such oversight or control and therefore has no component units which meet the criteria to be included in these financial statements.

See Independent Auditors' Report.



## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### C. ***Measurement Focus and Basis of Accounting***

Measurement focus refers to what is measured and basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting determines the timing of when to recognize the measurement made, regardless of the measurement focus applied. The applicable generally accepted accounting principles are those similar to businesses in the private sector.

As a 28 E organization, ISEPA is organized and presents its financial statements as a governmental proprietary enterprise fund using the economic resources measurement focus and accrual basis of accounting. As such, the fund measurement objective is the determination of operating income, changes in net assets, financial position, and cash flows similar to a private business entity. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the obligation is incurred.

### D. ***Revenue Recognition -***

ISEPA distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with its principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### E. ***Budget -***

ISEPA is not required to and does not publish or approve a public budget. Accordingly, it is unable to comply with the requirement to present budgetary information in these financial statements. ISEPA does, however, prepare an internal-use-only budget as required by Chapter 28E of the Code of Iowa.

### F. ***Use of Estimates -***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### G. ***Cash and Invested Funds -***

Cash and invested funds (cash equivalents) for the purpose of reporting cash flows, consists of cash and funds in operating bank accounts, including Iowa Public Agency Investment Trust (IPAIT).

### H. ***Contributions -***

The members of ISEPA will receive ownership interests in any plant construction or joint venture resulting from this development stage period.

See Independent Auditors' Report.

## **NOTE 2 - CASH AND INVESTMENTS**

ISEPA is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by ISEPA; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

All monies deposited with Iowa Public Agency Investment Trust (IPAIT) are held in the IPAIT Diversified Portfolio. The balances totaling \$2,031 and \$47,628 for 2009 and 2008, respectively, are not FDIC insured as IPAIT is not considered a financial institution. Instead, IPAIT is a common law trust established under Iowa law which authorizes Iowa public agencies to jointly invest moneys pursuant to a joint investment agreement. IPAIT is registered under the Investment Company Act of 1940. Investments in IPAIT are not classified as to custodial credit risk.

## **NOTE 3 - RELATED PARTY TRANSACTIONS**

Iowa Stored Energy Plant Agency (ISEPA) paid the Iowa Association of Municipal Utilities (IAMU) administrative fees for services performed in 2007 and prior. IAMU no longer provides those services. ISEPA still owes IAMU for those services in the amount of \$33,100 as of February 28, 2009 and February 29, 2008. This was subsequently paid.

## **NOTE 4 - NET ASSET DEFICIT**

Management is aware of the net asset deficit and is in the process of eliminating it. The Organization was awarded a \$3,200,000 contract with the Iowa Power Fund on December 10, 2008. These funds, in addition to investments from additional municipalities and associations, will fund Phase II which includes testing the land for feasibility of the underground structure. This contract with the Iowa Power Fund is in the form of a forgivable loan so that if the testing proves the site to be unfit, ISEPA would not be required to pay the money back.

## **NOTE 5 - COMMITMENTS AND CONTINGENCIES**

ISEPA has a contract with Nicholas Critelli to provide general counsel services at a rate of \$10,000 per month. This contract is at-will and can be terminated by either party for any reason.

ISEPA has contracted with Tom Wind to provide technical and management consulting services. This contract is at-will and can be terminated by either party for any reason.

ISEPA has a contract with The Hydrodynamics Group, LLC for Phase II CAES Confirmatory Drilling and Testing Program for a variable amount, estimated to total \$475,000. This project is projected to take about one year.

## **NOTE 6 - SUBSEQUENT EVENTS**

Subsequent to February 28, 2009, ISEPA received the first advance of the forgivable loan from the Iowa Power Fund. This grant contract stipulates that if the testing is unsuccessful, the funds will not be repaid. ISEPA agrees to repay the Grant if the technology developed by the Project is successful and implemented. The duration of the repayment obligation will be from the completion of the project through forty-eight consecutive months at \$100,000 per month.

See Independent Auditors' Report.

**NOTE 6 - SUBSEQUENT EVENTS** (Continued)

Subsequent to February 28, 2009, ISEPA signed contracts for the purchase of two parcels of land. The first parcel was purchase for \$195,000. The second parcel was purchased for \$1,500,000 on an installment basis with the condition that ISEPA may terminate the agreement, should the testing indicate that the subject property is not suitable for its intended use or should ISEPA decide not to proceed with the compressed air energy storage project for any other reason.

See Independent Auditors' Report.

## **IOWA STORED ENERGY PLANT AGENCY**

### **OTHER REPORT**

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## **INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AUDITS OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Iowa Stored Energy Plant Agency  
Traer, Iowa

We have audited the financial statements of the Iowa Stored Energy Plant Agency (ISEPA) as of and for the years ended February 28, 2009 and February 29, 2008, and have issued our report thereon dated November 17, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered ISEPA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ISEPA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of ISEPA's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects ISEPA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of ISEPA's financial statements that is more than inconsequential will not be prevented or detected by ISEPA's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by ISEPA's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the ISEPA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instance of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the ISEPA's operations for the years ended February 28, 2009 and February 29, 2008, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of ISEPA. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

ISEPA's responses to findings identified in our audit are included in the accompanying Schedule of Findings. While we have expressed our conclusions on the organizations responses, we did not audit ISEPA's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of governance and management, members and customers of ISEPA, and other parties to whom it may report and is not intended to be and should not be used by anyone other than these specified parties.

O'DONNELL, FICENEC, WILLS & FERDIG, LLP

By \_\_\_\_\_  
Certified Public Accountant

November 17, 2009

**IOWA STORED ENERGY PLANT AGENCY**  
**SCHEDULE OF FINDINGS**  
**FOR THE YEAR ENDED FEBRUARY 28, 2009**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS**

**Instances of Non-Compliance:**

No Matters were noted.

**Reportable Conditions:**

No matters were noted.

**OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING**

- (1) Questionable Expenses - No expenses that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979, were noted.
- (2) Travel Expense - No expenditures of money for travel expenses of spouses of Iowa Stored Energy Plant Agency officials or employees were noted.
- (3) Board Minutes - No transactions were found that we believe should have been approved in the Administrative Board minutes but were not.
- (5) Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa were noted.